

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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TABLE OF CONTENTS
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	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards.</i>	3
Financial Statements:	4
Statements of Assets, Liabilities, and Net Position – Modified Cash Basis	5
Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	6
Statements of Cash Flows – Modified Cash Basis	7
Notes to Financial Statements	8-11

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Independent Auditor's Report

Board of Directors
Rural Water District No. 2, Noble County

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 2, Noble County as of December 31, 2013 and 2012 and for the years then ended. These financial statements are the responsibility of the District's management.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 2, Noble County, as of December 31, 2013 and 2012; the changes in modified cash basis financial position; and cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 26, 2014 on our consideration of Rural Water District No. 2, Noble County's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
April 26, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Rural Water District No. 2, Noble County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural Water District No. 2, Noble County which comprise the statement of assets, liabilities and net position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2014. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 2, Noble County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 2, Noble County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Noble County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

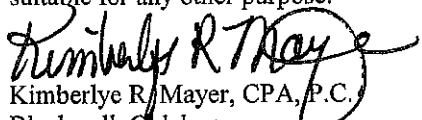
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2, Noble County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
April 26, 2014

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 165,349	\$ 118,850
Certificates of deposit	<u>149,495</u>	<u>147,958</u>
Total Current Assets	314,844	266,808
Restricted Funds:		
Debt service account	1,689	3,156
Debt service reserve account	<u>47,481</u>	<u>47,481</u>
Total Restricted Funds	49,170	50,637
Property, plant and equipment (net of accumulated depreciation) (Note 2)	1,233,725	1,261,085
Construction in progress	<u>75,626</u>	
Total Assets	<u>\$ 1,673,365</u>	<u>\$ 1,578,530</u>

LIABILITIES AND NET POSITION

Current Liabilities:		
Current portion of notes payable (Note 3)	\$ 16,500	\$ 14,405
Meter deposits	70,100	63,300
Notes payable (Note 3)	<u>241,250</u>	<u>258,895</u>
Total Liabilities	327,850	336,600
Net Position:		
Net investment in capital assets	1,051,601	987,785
Restricted for debt service	49,170	50,637
Unrestricted	<u>244,744</u>	<u>203,508</u>
Total Net Position	<u>1,345,515</u>	<u>1,241,930</u>
Total Liabilities and Net Position	<u>\$ 1,673,365</u>	<u>\$ 1,578,530</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water service	\$ 445,173	\$ 444,101
Other income		169
Total Operating Revenues	<u>445,173</u>	<u>444,270</u>
Operating Expenses		
Water purchases	86,235	117,613
Wages	59,440	53,219
Employee benefits	11,419	11,105
Payroll taxes	4,945	4,421
Trustee fees	750	750
Professional fees	1,005	965
Insurance and bonds	8,067	8,284
Repairs, maintenance and supplies	40,691	23,134
Water tests and fees	3,682	696
Auto expense	9,400	11,003
Meter reading fees	12,082	11,366
Utilities and telephone	14,581	14,726
Depreciation	78,609	70,682
Director fees	1,925	2,275
Mileage, meetings and travel	1,838	2,517
Postage and office supplies	9,178	8,211
Processing fees	5,891	4,558
Other expenses	4,789	6,110
Total Operating Expenses	<u>354,527</u>	<u>351,635</u>
Operating Income (Loss)	90,646	92,635
Nonoperating Revenue (Expenses):		
Interest income	2,140	1,771
Interest expense	(4,161)	(4,498)
Water tap and connection fees	14,960	20,800
Total Nonoperating Revenues and (Expenses)	<u>12,939</u>	<u>18,073</u>
Change in Net Position	103,585	110,708
Net Position, beginning of year	<u>1,241,930</u>	<u>1,131,222</u>
Net Position, end of year	<u><u>\$ 1,345,515</u></u>	<u><u>\$ 1,241,930</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 451,973	\$ 447,321
Other operating cash receipts		169
Cash payments to suppliers for goods and services	(216,478)	(227,734)
Cash payments to employees	<u>(59,440)</u>	<u>(53,219)</u>
Net cash provided (used) by operating activities	176,055	166,537
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(126,875)	(87,638)
Grant and FEMA income		
Connection fees	14,960	20,800
Principle payments	(15,550)	(14,350)
Interest payments on debt	<u>(4,161)</u>	<u>(4,498)</u>
Net cash provided (used) by financing activities	(131,626)	(85,686)
Cash flows from investing activities:		
Interest income	2,140	1,771
(Increase) decrease in investments	(1,537)	(51,507)
(Increase) decrease in restricted accounts	<u>1,467</u>	<u>(1,593)</u>
Net cash provided (used) by investing activities	<u>2,070</u>	<u>(51,329)</u>
Net increase (decrease) in cash and cash equivalents	46,499	29,522
Beginning cash and cash equivalents	118,850	89,328
Ending cash and cash equivalents	<u>\$ 165,349</u>	<u>\$ 118,850</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 90,646	\$ 92,635
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	78,609	70,682
Changes in assets and liabilities:		
Increase in meter deposits	<u>6,800</u>	<u>3,220</u>
Net cash provided (used) by operating activities	<u>\$ 176,055</u>	<u>\$ 166,537</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 2, Noble County was incorporated under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner and occupants of land located within the District, and others as authorized by the by-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Restricted Reserves

Rural Economic and Community Development Agency requires monies to be held in reserve accounts. These reserve funds are for future debt service and amounted to \$49,170 and \$50,637 at December 31, 2013 and 2012 respectively.

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers demand accounts, (excluding restricted reserves), subject to withdrawal by check and deposits with a maturity of three months or less to be cash equivalents.

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2013 and 2012 was \$78,609 and \$70,682 respectively. The balances for depreciable assets by major category are as follows:

	Balance 12/31/12	(Deletions) Additions	Balance 12/31/12
Building and land	\$ 121,468	\$	\$ 121,468
Water distribution system	1,910,073	14,911	1,924,984
Machinery & equipment	149,221	31,248	180,469
Office furniture & fixtures	19,741	5,090	24,831
	<u>2,200,503</u>	<u>51,249</u>	<u>2,251,752</u>
Less accumulated depreciation	(939,418)	(78,609)	(1,018,027)
Net	<u>\$ 1,261,085</u>	<u>\$ (27,360)</u>	<u>\$ 1,233,725</u>

NOTE 3 – NOTES PAYABLE:

During the year ended December 31, 1999 the District entered into a note agreement with the Oklahoma Water Resources Board for \$510,000. The proceeds from this note were used to refinance an existing note with USDA – Rural Development, pay loan costs, set up a debt service reserve fund, and to pay for construction costs for the improvement and expansion of its waterline system. Monthly payments began January 15, 2000 with an interest rate of 4.772%. The rate of interest and monthly payments are adjusted semiannually. The term of the note is 30 years. The current interest rate at December 31, 2013 was 1.565%. The following is a summary of the notes payable at December 31, 2013 and 2012:

Balance at 12/31/11	\$ 287,650
Principle payments	<u>(14,350)</u>
Balance at 12/31/12	273,300
Principle payments	<u>(15,550)</u>
Balance at 12/31/13	<u>\$ 257,750</u>

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3 – NOTES PAYABLE(continued):

The following is a summary of future debt requirements.

<u>Year Ending</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
12/31/14	\$ 20,296	\$ 16,500	\$ 3,796
12/31/15	20,296	17,900	2,396
12/31/16	16,692	10,400	6,292
12/31/17	16,692	11,100	5,592
12/31/18	16,692	11,600	5,092
12/31/19-12/31/23	101,480	68,200	33,280
12/31/24-12/31/28	107,480	100,800	6,680
12/31/29	24,010	21,250	2,760
	<u>\$ 323,638</u>	<u>\$ 257,750</u>	<u>\$ 65,888</u>

NOTE 4 – WATER PURCHASE COMMITMENT:

The governing board of the Rural Water District No. 2, Noble County, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the USDA-Rural Development to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member has contracted to purchase a minimum amount of water from the Association during the 40 year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. At December 31, 2013 and 2012, the District's percentage of ownership was 12%.

Up until July 1, 2011, Rural Water District No. 2, Noble County, was obligated to purchase a minimum of 31.2 million gallons of water annually. Because of the drought conditions at the Lone Chimney Lake, the minimum purchase was waived until the availability of water increases. At December 31, 2013, all water was being purchased from the cities of Stillwater and Perry.

NOTE 5 – FAIR VALUE OF INSTRUMENTS:

The District's financial instruments include cash and cash equivalents and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6 - ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 7 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 8 – CONTINGENCIES:

As of December 31, 2013 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 8 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through April 26, 2014, the date which the financial statements were available to be issued.